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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 292 **September, 1984**

Business in Virginia August, 1984 Data

Virginia's economic indicators in August showed generally that we are continuing to grow at a slower pace than earlier in the year, the same as the nation. However, the pattern of the changes in Virginia's indicators was quite different from the nation's in August.

Retail trade in Virginia advanced strongly compared to last August, up 14.9 percent based on our sample data. Nationally, retail sales declined last month, leaving them only 8.1 percent above last year. Therefore our growth was 6.8 percent better than the national year-to-year change. The same relative strength also is shown in new car registrations. In Virginia they were up 20.5 percent last month, somewhat below July's 28.6 percent year-over-year growth. However, nationwide new car sales in August slowed to only 12.4 percent above the same month last year. This comparison shows our growth over last August in new car registrations exceeded the nation's growth by 8.1 percent. Therefore our retail trade in both durable and nondurable goods is growing at a substantially better pace than at the national level.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change August, 1984 from August, 1983

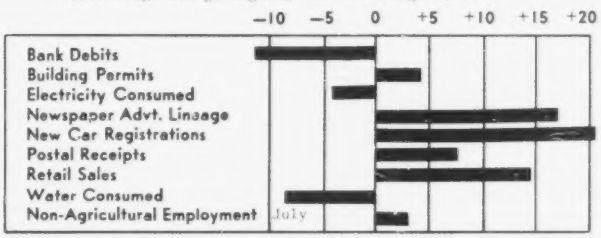
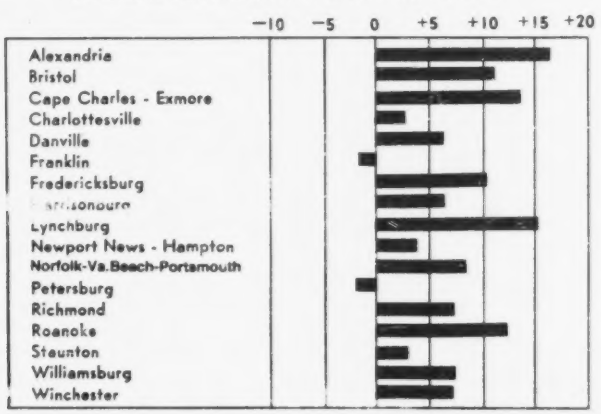


Chart II

City Indices

Percentage Change August, 1984 from August, 1983



Another major sector where the Commonwealth fared better than the nation is in building permits, a promising signal for the construction industry in the next few months. Statewide, building permits were up 4.0 percent over last August, which itself was almost 100 percent above August 1982. Most importantly, building permits grew substantially in eleven of the seventeen urban areas we cover, so the forthcoming construction activity is distributed rather broadly throughout the State. That is in sharp contrast to the July reports, which showed increases in only five urban areas. Building permits growth *is* well below the pace for January through July, but still remains positive and managed to improve relative to July 1984.

Wholesale and retail trade accounted for 43 percent of the State's nonagricultural employment in July; and construction, for another 6 percent. Therefore 49 percent, almost one-half of the employment, was in these two sectors. Virginia's continuing strength in these two sectors makes additional year-over-year employment gains in trade, services and construction quite likely.

The questionable area of the Commonwealth's performance in August is industrial production. Our indicators do not directly measure such production. However, electricity and water consumed both partially reflect industrial activity. Electricity consumed was down 4.2 percent across the thirteen areas for which we have data, and for twelve of the thirteen electricity consumption either was lower than last August or grew by less than in July. Water consumption declined 8.6 percent compared to last August, also with either declines or lower growth in all but one of the areas reporting. The worse performance in August in these two indicators may be entirely due to the fact that the comparison is to the very hot, dry August of 1983. However, this performance also may be an indication that the Commonwealth's industrial production is growing at a much slower pace, matching the national slowdown. We will have to wait for the Virginia Employment Commission's employment figures for manufacturing in the next two months before we will know for certain.

Employment in Virginia *did* increase 3.2 percent in July compared to July 1983, and we expect further year-over-year increases this fall. However, the August indicators

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SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I AUGUST, 1984

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX *	BANK DEBITS *	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	JULY NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		295.1	176.2	138.2	107.4	281.2	119.8	94.5	141.0	256.9
Alexandria	159.0	227.9	294.7	143.9	N.A.	144.7	136.2	101.1	188.1	N.A.
Bristol	134.4	266.5	57.5	85.9	75.9	109.0	N.A.	98.2	145.1	270.8
Cape Charles - Exmore	111.1	103.9	595.2	127.9	N.A.	102.4	N.A.	N.A.	115.6	200.4
Charlottesville	168.0	344.9	242.4	124.4	N.A.	128.3	N.A.	119.3	183.9	252.3
Danville	136.2	N.A.	242.1	119.9	134.0	96.9	N.A.	86.3	145.8	215.1
Franklin	133.1	N.A.	22.2	118.7	106.9	127.9	N.A.	101.8	134.9	204.9
Fredericksburg	198.0	600.5	308.6	N.A.	144.4	178.1	N.A.	65.1	215.8	351.0
Harrisonburg	145.6	190.5	488.6	N.A.	125.8	111.8	N.A.	121.4	147.3	218.5
Lynchburg	190.3	350.1	202.2	116.2	N.A.	112.2	N.A.	119.4	151.0	531.4
Newport News - Hampton	126.9	206.3	212.9	123.9	90.3	112.7	127.6	119.2	147.3	N.A.
Norfolk - Va. Beach - Portsmouth	143.8	300.8	247.1	160.0	100.0	120.0	124.0	86.0	180.2	N.A.
Petersburg	106.2	111.7	104.8	N.A.	62.0	89.8	N.A.	95.1	99.3	198.8
Richmond	134.6	294.5	157.1	155.7	117.2	121.6	113.4	110.7	115.6	224.7
Roanoke	145.0	392.4	82.5	102.7	159.2	98.9	112.4	101.8	147.0	256.3
Staunton	118.8	115.5	673.0	N.A.	77.8	87.3	N.A.	N.A.	116.5	197.9
Williamsburg	151.5	171.0	147.3	168.4	N.A.	146.6	N.A.	115.1	126.2	251.6
Winchester	149.6	240.5	85.4	121.3	192.1	127.2	N.A.	124.0	129.3	244.3

TABLE II August, 1984

Percentage Change from same month last year

CITY	CITY INDEX *	BANK DEBITS *	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	JULY NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JULY RETAIL SALES ‡
The State		-11.2	4.0	-4.2	17.0	20.5	3.2	-8.6	14.9	10.8
Alexandria	16.1	4.7	-50.4	-8.9	N.A.	15.6	5.3	-4.8	31.6	18.8
Bristol	10.8	-1.5	-73.0	-2.6	5.0	9.0	8.2	1.9	20.8	5.5
Cape Charles - Exmore	13.5	59.4	124.7	-4.4	N.A.	18.9	N.A.	N.A.	17.7	16.4
Charlottesville	2.8	15.0	5.3	0.4	N.A.	-3.2	-0.7	-1.3	6.9	14.6
Danville	6.2	N.A.	6.9	2.2	33.0	-3.8	1.0	-2.1	4.6	2.6
Franklin	-1.7	N.A.	-15.1	-6.3	4.5	5.4	N.A.	-22.6	2.3	5.8
Fredericksburg	10.3	34.8	19.0	N.A.	14.8	13.7	N.A.	-14.5	16.0	25.1
Harrisonburg	6.3	555.1	11.8	N.A.	11.1	30.0	N.A.	-10.1	2.3	14.2
Lynchburg	15.1	-17.9	-6.8	-2.7	N.A.	9.4	2.9	-5.7	29.8	7.2
Newport News - Hampton	3.4	-2.7	-5.0	-7.2	23.2	22.2	4.5	-17.7	1.0	5.3
Norfolk - Va. Beach - Portsmouth	8.0	-32.1	12.2	-0.4	18.7	14.9	4.9	-1.7	8.2	8.0
Petersburg	-1.7	24.2	135.2	N.A.	-14.4	-3.0	-2.7	-15.6	7.7	4.8
Richmond	7.1	-5.5	203.6	0.9	13.8	23.0	1.9	-13.1	8.3	-0.3
Roanoke	12.3	-12.0	16.3	-11.8	21.9	14.8	4.0	-10.1	23.8	6.6
Staunton	2.6	76.3	628.9	N.A.	2.0	1.2	N.A.	N.A.	3.2	0.4
Williamsburg	7.1	67.4	45.7	0.3	N.A.	19.3	N.A.	5.9	5.7	15.2
Winchester	7.1	11.2	-47.5	5.3	14.8	9.1	N.A.	-2.9	7.9	33.4

TABLE III

Percentage Change January - August from same period last year

CITY	CITY INDEX *	BANK DEBITS *	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	JAN.-JULY NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN.-JULY RETAIL SALES‡
The State		3.4	18.1	7.2	12.7	25.4	4.3	2.4	8.9	22.4
Alexandria	9.9	28.5	4.9	3.3	N.A.	16.7	5.2	1.7	12.5	26.1
Bristol	17.8	-5.1	47.3	8.4	-0.2	25.2	3.7	18.6	24.2	20.8
Cape Charles - Exmore	2.6	50.9	-30.5	-3.7	N.A.	32.5	N.A.	N.A.	-5.3	15.9
Charlottesville	2.4	27.8	-95.5	8.5	N.A.	11.4	1.8	-3.9	-0.5	26.4
Danville	7.5	N.A.	89.2	3.7	13.4	17.6	1.7	3.0	5.0	19.0
Franklin	7.3	N.A.	-29.3	5.9	4.6	28.4	N.A.	-7.8	6.6	19.7
Fredericksburg	13.0	14.5	-2.8	N.A.	9.0	34.1	N.A.	0.4	11.4	43.9
Harrisonburg	9.8	45.1	63.8	N.A.	11.7	13.5	N.A.	4.0	9.9	30.3
Lynchburg	13.1	-18.5	-13.6	6.3	N.A.	17.7	3.8	8.8	15.3	23.8
Newport News - Hampton	6.2	9.5	37.7	7.1	14.5	21.3	5.0	-2.5	1.1	16.3
Norfolk - Va. Beach - Portsmouth	10.8	1.0	16.1	8.8	14.4	18.1	5.0	7.3	9.0	22.3
Petersburg	1.6	-8.2	302.4	N.A.	-7.4	15.9	-1.6	-8.0	3.1	15.5
Richmond	10.6	3.1	23.5	12.7	14.9	26.9	2.6	0.2	6.5	20.3
Roanoke	13.3	6.7	10.1	8.6	13.9	20.6	3.3	1.9	16.0	23.1
Staunton	4.3	31.2	10.5	N.A.	3.1	22.7	N.A.	N.A.	-1.4	11.2
Williamsburg	7.0	23.8	-96.0	7.3	N.A.	17.9	N.A.	8.5	2.7	15.2
Winchester	10.1	14.2	1.7	11.4	18.8	17.9	N.A.	9.7	4.3	36.5

* Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

Virginia Employment Commission data which lag behind current reports.

† Preliminary data based on a survey sample.

‡ Revised data based on sales tax information which lags behind current reports.

point to the gains continuing to be heavily concentrated in the trade sectors rather than manufacturing.

Turning to the individual urban areas, a general observation is appropriate. The relative positions of the areas, particularly if you rank them in order by the percentage change in the City Index, are fluctuating quite a bit from month to month. That is a favorable sign in most cases, especially since all but two of the City Indexes increased in August, because it indicates growth is not continually being concentrated in a few geographic areas. Instead, growth is becoming more broadly diffused across the State, as first one area, then another, is among the top growth areas. For example, for Cape Charles-Exmore to move from sixteenth place to third, and for Harrisonburg to temporarily slip from fourth (in June) to eleventh, indicates we are getting more balance in growth across the Commonwealth. The increase in August for Harrisonburg still was a very respectable 6.3 percent, only slightly below its 6.6 percent increase in July. However, growth rebounded on the Eastern Shore, from a decrease of .6 percent in July to a 13.5 percent increase in August, the third highest gain in the State. A continuation of that type of fluctuation in relative performance will bring the urban areas *closer* together in growth for the year as a whole.

Since the August patterns are quite mixed for individual areas, we will focus on the year to date figures in Table III. *For all seventeen areas,* the January-August City Indexes show growth compared to the same period last year. The upswing so far this year has been strongest in Bristol, Roanoke, Lynchburg, Fredericksburg, and the Norfolk-Virginia Beach-Portsmouth area, as indicated by the City Index growth. However, the Alexandria (Northern Virginia), Harrisonburg, Newport News-Hampton, Williamsburg, and Winchester areas show good prospects for finishing the year with about the same overall growth as the current leaders. If in fact ten (or more) of the seventeen areas we cover do end the year with growth rates very close to each other, and for all seventeen there is at least some growth, that will be good news not only for the individual areas but also for the State as a whole. Growth that widely distributed throughout the Commonwealth will carry us into 1985 with a solid base for balanced growth in the coming year.

RLP

Comments on the Recovery

All of our readers have been deluged with general descriptions of the current recovery, so another overview would be redundant. Instead, we decided to provide a few comments to supplement the general perspective provided by other sources. The topics cover aspects of the recovery, and ways to interpret it, which we felt might be interesting to you.

Recovery and Expansion

As background, we will review the cycle dates, as officially determined by the National Bureau of Economic Research. The last peak in economic activity was reached in July 1981 (or third quarter 1981, which we will identify as 1981:3), followed by a 16 month recession whose trough was in November, 1982 (or 1982:4). The recovery and expansion since then will be seven quarters old as of October 1, 1984.

The words recovery and expansion are used interchangeably in describing an upturn, but they can have different meanings and be interpreted very differently. So, we will offer one interpretation of the difference. Economists start giving glowing reports about the economy's growth and performance as soon as a recovery begins, yet at the same time there are numerous news stories showing many households and industries still are in bad shape. *Both* types of stories are accurate, because a recovery begins after we have reached *bottom* — the lowest point of the previous recession. So, the initial upward movement truly is a recovery — we are trying to regain our economic health. There are several different measures one could use to define the nation's recovery, just as there are many for assessing when a sick patient is well again. At a minimum, however, it is reasonable to assume recovery means the nation is as well off on a per capita basis as it was at the previous peak. On that basis, real (inflation-adjusted) disposable personal income per capita in 1983:2 passed the level at the previous peak in 1981:3. Therefore real purchasing power per person began to expand to new heights very quickly after the recession ended. It is more than just coincidence that the Consumer Sentiment Index (prepared by the Survey Research Center, University of Michigan), which reflects consumer confidence, rose from 72.2 to 91.5 in the second quarter of 1983, reaching the highest level since late 1972.

Another appropriate recovery measure is the real GNP per capita: the inflation-adjusted level of the nation's output per person. Total real output also is the nation's total real income of all types, so real GNP per capita offers a comprehensive measure of economic recovery. This measure passed the 1981:3 peak in 1983:4. Thus it took four quarters of recovery before total real output per person reached a new record level. By this approach, the year 1983 truly was one of recovery, during which we climbed back to the previous peak. The year 1984 has been the period of true expansion, to new record highs in real output, as well as income, per person.

Distinguishing between recovery and expansion helps to explain some of the concerns this year. So long as we are in the recovery phase, we know the production capacity exists to meet rapid growth of demand — we are merely getting back to where we have been before. High growth is applauded, because we want to regain the use of our idle resources as quickly as possible. However, once we move into the expansion phase, when demand and output are reaching new heights, rapid growth becomes worrisome. Can output and the capacity to produce it keep up with the growth in demand? If so, great. But if not, then the demand growth causes overheating: prices start rising more rapidly as we try to outbid each other for limited supplies, planting the seeds for another inflationary spiral, and bottlenecks are created by too little capacity in some industries, throwing the expansion out of balance. That is why during the recovery phase everyone cheered the annual rates of real GNP growth of 9.4 percent in 1983:2 and 6.8 percent in 1983:3; but, six months later when we had moved into the expansion phase, they were expressing concern, if not alarm, about possible overheating when the real GNP growth was an annual rate of 10.1 percent in 1984:1 and 7.1 percent in 1984:2. And, the "flash" estimate of September 20 that the 1984:3 growth rate will slow down to 3.6 percent was greeted with cheers here and abroad. We had experienced two quarters of very high real growth without overheating, and real growth finally slowed to a sustainable pace which capacity growth can match. Our average annual real growth rate from 1952-1972 was 3.5 percent. That is history, so both the past and present conditions indicate we can continue to expand at least at this rate

without overheating. Plus, the labor force is growing less rapidly now than in the past, meaning growth in the 3.5 percent range or slightly better will produce continuing declines in unemployment. For the year 1984, the expected result is real growth of 7.2 percent over 1983, the best year-over-year real growth the nation has had since 1951. Thus, we are in a year of unusually rapid expansion, which is expected to end with real growth at a lower, sustainable rate.

During the first six quarters of the recovery and expansion, inflation as measured by the GNP Implicit Price Deflator has been at an average annual rate of 3.8 percent; and it, too, has declined recently. During 1984:2, the average annual rate was 3.3 percent, and the "flash" estimate is a 2.9 percent rate for 1984:3. Another very encouraging sign is illustrated by the Index of Unit Labor Cost, Private Business Sector, which shows how the labor cost per unit of output is changing. From 1982:4 through 1984:2, this Index only rose by .6 percent during the six quarters. Therefore a combination of productivity gains and lower wage growth has held the labor cost of production almost constant, and that represents about 73 percent of the cost of producing the nation's output. That performance shows little or no "cost-push" pressure on price levels from labor costs, another reason for the optimism that our inflation rate will remain low in the near future. Thus we seem to be headed into 1985 with a moderate growth and inflation environment which offers the opportunity for a long period of healthy expansion. The private sector of the economy is performing excellently, better than nearly everyone's expectations. Now it is up to the Federal government to adopt a sensible plan for getting its finances in order, a plan which will allow the expansion to continue.

Foreign Trade

The strength of the expansion as well as the strength of the dollar have led to an unusually large increase in imports, and held our exports below what they otherwise might have been. The growth in imports has slowed the recovery of some U.S. industries, no question. That has generated some vocal demands for protectionist trade policies. However, there is another side to the issue which hasn't received much publicity. The ability to import freely, and the circumstances of declining dollar prices for those imports, served as a major safety value in enabling the nation to avoid overheating.

Full data is available for the period from 1982:4 through 1984:2, so we will use the first six quarters since the trough for illustration. The real volume of imports grew by 38.4 percent over those six quarters. For comparison, the typical increase in the quantity of imports during the first six quarters of recovery and expansion is about 15 percent. So, the import growth for the period was approximately 23 percent above normal. Suppose import growth had been only the typical 15 percent, and the rest of the demand for foreign goods had been required to be met by U.S. production? Then, total growth in real GNP since the recession would have been at least 12.6 percent in the first six quarters, instead of 10.8 percent, if we could have met the extra demand. Plus, the annual growth rate in output would have been about 11.5 percent in the first quarter of 1984, instead of 10.1 percent. Those calculations *only* show the direct change in growth created by producing the extra imported goods here. If we *had* produced them in the United States, that would have generated more domestic income and people receiving that extra income would have wanted to spend most of it, creating a multiplier effect. The *full* impact of having met that extra demand here during the last six quarters would more likely have required real growth of about 15 percent, and the growth rate in the first quarter of 1984 would have to have been running over 12 percent at an annual rate. Growth rates of that magnitude almost certainly would have produced overheating, and forced the Federal Reserve System to have adopted a very tight monetary policy in late 1983.

In sum, U.S. production grew very rapidly in 1983 and the first half of 1984. However, the public's demand for goods and services grew even *more* rapidly than output. Without the safety valve of being able to meet some of that demand through above-average growth in imports, it is very likely we would have been faced with a boom we couldn't handle, causing overheating and rising inflation. Under that scenario, we probably would be facing another drastic slowdown or recession by now, rather than favorable expansion conditions.

The strong dollar also has had an important side effect. The dollar prices we are paying for our imports are considerably less than we had to pay in 1982:4, contributing to the lower inflation rate we are experiencing. On the export side, the strong dollar means our goods cost more abroad, so exports have not grown as much as they might. But, since 1982:4 the quantity of our exports has grown by 7.5 percent, slightly above the post-World War II average of 6.8 percent during the first six quarters following a recession. If we had adopted protectionist measures to reduce imports, other countries very likely would have taken similar steps, and our exports would have fared much worse.

There are problems in providing fair treatment for our industries which are affected by world trade, and we have some laws for dealing with those problems, such as preventing unfair dumping of government-subsidized foreign products in U.S. markets. Closing the door on imports is not the answer to the remaining problems. We need access to the world markets, both to grow by exporting and to meet part of the growing U.S. demand by importing. A more logical approach, for the government and industry, is the one illustrated by the automobile contract tentatively agreed to by General Motors and the United Auto Workers, where workers displaced by GM importation of components will be provided with money and retraining for other types of productive jobs.

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